



CalPERS
Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 326-3240

(916) 326-3400

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AGENDA ITEM 5a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Member Home Loan Master Services RFP
- II. PROGRAM:** Member Home Loan Program (MHLP)
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Summary

Staff is preparing a Request for Proposal (RFP) for the Member Home Loan Program (MHLP) as the existing program contract with CitiMortgage, the current MHLP program manager, expires on March 31, 2007. The current program management responsibilities include master servicing, program marketing, mortgage loan delivery and general administration. In the last RFP, only one servicer applied, due in large part, we believe, to the fact the master servicer was not allowed to be an originator of loans under the MHLP. The new RFP will address this issue by allowing an expansion of the scope of services to allow the successful bidder to directly originate Member Home Loans. This provision is expected to increase the number of RFP bidders, provide CalPERS members with more choices of loan officers when applying for a real estate loan, and help more CalPERS members become home owners.

Background

The MHLP was created by statute in 1981. Government Code Section 20200, known as the Dave Elder Public Employees' Retirement System Member Home Loan Program Act, enabled the CalPERS Board of Administration to establish a home loan program to assist members in purchasing or refinancing owner-occupied homes. Among its provisions,

Section 20200(c)(2) states “that private lending institutions throughout the United States shall originate and service its home loans pursuant to agreements entered into between those institutions and the Board.”

Program Management History

The MHLP has been managed by a succession of firms directly associated with one another by acquisitions and mergers. The current MHLP contract stemmed from an RFP issued in 2002 (“MHLP 2002 RFP”).

First Nationwide (which has since been acquired by CitiMortgage) was the only firm that bid for the current contract. Countrywide Home Loans, the nation’s largest mortgage loan originator and servicer, regrettably declined to bid primarily because of the restriction against the MHLP manager originating MHLP loans.

Countrywide Home Loans has expressed interest in bidding on the upcoming RFP provided that the program is changed such that the MHLP manager will be allowed to originate MHLP loans. US Bank has also expressed interest in bidding on the upcoming RFP.

Current Restriction Against Loan Origination

The MHLP 2002 RFP prohibited the contract manager from originating loans under the program. This limitation was decided at a staff level to avoid possible conflicts of interest.

Investment Office staff has re-evaluated the loan origination restriction imposed upon the MHLP contract manager. Neither the CalPERS Legal Office nor the Contract Management Section found that the restriction was necessary. All participating lenders in the MHLP are required to follow established loan underwriting guidelines when originating loans. These guidelines are set forth by the CalPERS Investment Office staff under the auspices of the Board and in accordance with Government Code section 20200(c)(7), which stipulates “that the criteria and terms for its loans shall provide the greatest benefit to members consistent with the financial integrity of the program and the sound investment of the retirement fund.”

The upcoming RFP, including the accompanying contract exhibit, will have a “Conflict of Interest” section that will require the contract manager to “explain in writing how it proposes to manage or mitigate all potential or actual Conflicts of Interests of the firm or any Key Personnel.” The contract manager’s firm, including its key personnel, will be required to meet their respective fiduciary duty of exclusive loyalty to CalPERS.

CalSTRS Home Loan Contract Provides Origination Privileges

The California State Teachers Retirement System (CalSTRS) offers a home loan program to its membership which is remarkably similar to the MHLP. CalSTRS' Home Loan Program is currently managed by Countrywide Home Loans, and the CalSTRS program manager is permitted to originate loans in addition to having administrative responsibilities which include mortgage loan delivery, servicing, reporting, marketing and client relations. The CalSTRS contract has been in effect since 2003.

Direct Origination Adds Value to CalPERS MHLP

In addition to providing CalPERS members with more choices regarding lenders, direct origination privileges may benefit members in other ways.

Recently, CitiMortgage proposed a program enhancement to help more members become homeowners. Under this proposal, CalPERS members inquiring about a home loan are preliminarily evaluated regarding their eligibility and ability to qualify for a home loan. Members which might not be quite ready to purchase a home due to credit concerns, educational needs, etc., are counseled through a home readiness program by a CitiMortgage-sponsored program. When members do become better qualified for a home loan, CitiMortgage can lead these members through the loan origination process until members successfully become home owners. However, this program only makes economic sense to the contract manager if it is permitted to originate MHLP loans.

Summary

Staff believes that allowing the MHLP manager to originate home loans under the program will increase the number of RFP bidders, provide CalPERS members greater choice in selecting loan officers when purchasing and refinancing their homes, and help more CalPERS members become home owners.

Having considered these advantages, and having conferred with CalPERS legal department and contracts staff about the potential conflicts of interest, investment staff is intent on providing loan origination privileges to the successful bidder on the upcoming MHLP RFP.

V. STRATEGIC PLAN:

This item is consistent with Goal V: Provide sustainable pension benefit products and services responsive to and valued by members, employers and stakeholders.

VI. RESULTS/COSTS:

There will be no costs associated with this item.

Mark Yelavich
Investment Officer

Arnold B. Phillips
Senior Portfolio Manager

Curtis D. Ishii
Senior Investment Officer

Russell Read
Chief Investment Officer